

CFG PLANNING ESTIMATES

(AN UPDATE ON TAX REFORM AND FY21 FINAL REVENUE)

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Assessment of Current Situation

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- Beginning the process of revising FY22 and projecting the next biennium and beyond
 - August planning estimates include the current fiscal year and the next four fiscal years pursuant to KRS 48.120 (1)
 - Two more opportunities to estimate FY22-FY24 in October and December pursuant to KRS 48.120 (2) and KRS 48.120 (3)
 - Today is not an official revision to the estimates
- General Fund grew by 10.9% in FY21
 - Highest growth since FY95 when revenues also grew by 10.9%
 - Sales Tax up 12.0 percent
 - Individual Income up 7.9 percent
 - Business taxes were 38.1 percent higher

Summary Display of Official Estimates

(General Fund, Millions \$)

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	FY 2021	FY 2022
CFG December Estimate	\$11,729.0	\$11,996.3
Legislative Impacts	(\$25.0)	(\$161.5)
Security Sales	-----	\$15.0
Official Estimate	\$11,704.0	\$11,849.8
Actual Receipts	\$12,827.4	-----
Difference (from Official)	\$1,123.4	-----

FY2021 General Fund Revenues

(FY21 revenue totals, \$ million)

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	FY21 Actual Receipts	FY21 Enacted Estimate	Difference from Enacted	Percent Change vs. FY20
Sales and Use	\$4,561.0	\$4,232.8	\$328.2	12.0
Individual Income	5,143.8	4,813.0	330.8	7.9
Corp Inc & LLET	882.8	547.5	335.3	38.1
Coal Severance	56.1	52.4	3.7	-4.7
Cigarette Taxes	349.9	345.2	4.7	-1.4
Property	702.5	663.7	38.8	9.2
Lottery	289.1	286.1	3.0	6.5
Other	<u>842.2</u>	<u>763.3</u>	<u>78.9</u>	<u>10.4</u>
TOTAL	\$12,827.4	\$11,704.0	\$1,123.4	10.9%

FY2021 General Fund Milestones

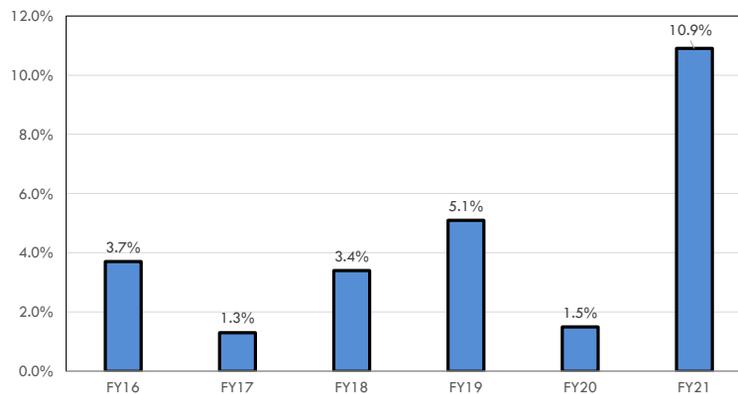
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- **Sales Tax grew 12.0%**
 - Highest growth since FY91 (Tax rate increased from 5% to 6%)
 - Online sales tax expanded to over \$265 million
- **Business Taxes (Corporate Income + LLET) grew 38.1%**
 - Highest business tax growth since tax reform effects in FY06
 - Abrupt change from recent years of tepid growth
- **Property Taxes grew 9.2%**
 - Highest rate of growth since FY84
 - The real property tax rate will be adjusted downward for the first time since 2008 from 12.2 cents to 11.9 cents per \$100 of assessed valuation for the 2021 assessment year. Assessments grew 6.5%.

Recent General Fund Growth Rates

(Percentage Growth %)

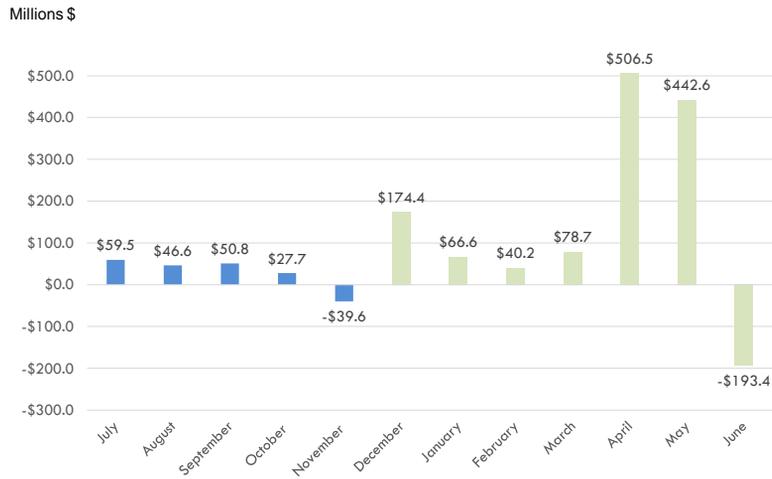
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Monthly Revenue Growth Throughout FY21

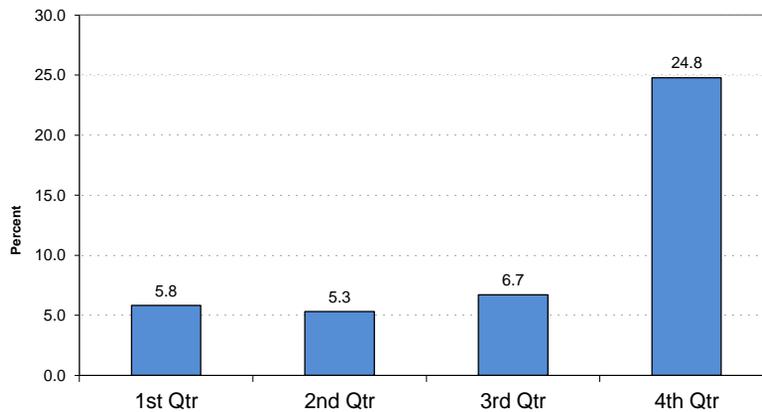
(Millions \$)

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Quarterly GF Revenue Growth in FY21

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FY2021 Road Fund Revenues

(FY21 revenue totals, \$ million)

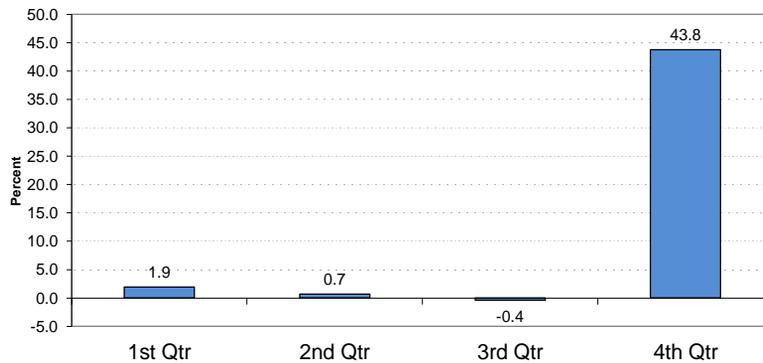
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	FY21 Actual Receipts	FY21 Enacted Estimate	Difference from Enacted	Percent Change vs. FY20
Motor Fuels	\$748.4	\$756.2	-\$7.8	0.9
Motor Vehicle Usage	620.9	568.6	52.3	24.4
Motor Vehicle License	125.5	117.2	8.3	15.5
Motor Vehicle Operators	22.1	17.2	4.9	70.8
Weight Distance	83.2	79.7	3.5	-0.2
Investment Income	-0.1	0.2	-0.3	-101.9
Other	<u>42.5</u>	<u>38.6</u>	<u>3.9</u>	<u>8.9</u>
TOTAL	\$1,642.3	\$1,577.7	\$64.6	10.1%

Quarterly RF Revenue Growth in FY21

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Quarterly Road Fund Growth



FY2021 Road Fund Milestones

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- Total Road Fund Collections grew 10.1%
 - Highest growth rate since FY11 when motor fuels tax rate was increasing due to higher average wholesale prices
 - \$1,642.3 million was the highest nominal level of collections in Road Fund history.
- Motor Vehicle Usage Tax
 - Broke the \$600 million mark for the first time
 - Highest nominal collections by over \$104.5 million

General Fund Legislative Changes

(Since December 4, 2020)

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- Recall that the 2020 Regular Session had few tax measures due to the COVID uncertainty, but we addressed those in December, 2020
- The 2021 Regular Session had more tax activity
 - ▣ FY21 – \$(25.0)
 - ▣ FY22 – \$(161.5)
 - ▣ FY23 – \$(196.5)
 - ▣ FY24 – \$(107.3)
 - ▣ FY25 – \$(114.0)
 - ▣ FY26 – \$(118.8)
- See handout for itemized list

Tax Impacts from 2021 Session

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- HB 321
 - ▣ Single Project TDA Language
 - ▣ West End TIF Louisville
- HB 278 (Forgiven PPP Loan Expensing)
- HB 563 (School Choice Tax Credits)
- HB 230 and SB 255
 - ▣ Cryptocurrencies Sales Tax and CED Incentives
- HB 249
 - ▣ Reduced Base for Open Vaping
 - ▣ Historical Preservation Credit Cap
 - ▣ Film Incentives Refundable

Forecasting Challenges

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- Dependent Variables with problematic history
 - ▣ Covid-related changes to consumption patterns (e.g., MVU)
 - ▣ Changing tax policy corrupts most dependent variables (e.g., CIT)
 - ▣ Exogenous wealth effects from federal fiscal stimulus (e.g., Sales)
- Difficult to tease out cyclical growth from fiscal stimulus effects
- Couldn't create policy neutral dependent variables
- Time series models sensitive to latest observations
- We may still have COVID-related uncertainty due to changing assumptions in the forecasts from IHS Markit